



United States  
Department of  
Agriculture

Food and  
Consumer  
Service

Mountain  
Plains  
Region

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Denver, CO  
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MAY 18 2001

Reply to  
Attn of:

CACFP-646

Subject:

Calculating and Applying the 30 Percent Limitation on Administrative Reimbursement for Sponsoring Organizations of Day Care Homes in the Child and Adult Care Food Program (CACFP)

To:

STATE AGENCY DIRECTORS - Colorado DPHE, Iowa, Kansas,  
(Child Nutrition Programs) Missouri DH, Montana DPHHS,  
Nebraska, North Dakota, South  
Dakota, Utah and Wyoming

Section 226.12(a) of the CACFP regulations limits the amount of administrative reimbursement which can be paid each fiscal year to a sponsoring organization for administration of the Program in day care homes. Maximum administrative payments for day care home sponsors are limited to the smallest of (1) the sum of the number of operating homes times administrative rates for all operating months OR (2) actual administrative costs OR (3) the approved administrative budget. Because this formula could yield disproportionately high administrative payments in comparison to reimbursements for food service, administrative payments are further limited to no more than 30 percent of the total amount of administrative and food service payments for day care home operations. This second limit ensures that the cost of delivering Program benefits will not be excessive in comparison to the value of benefits delivered.

We have become aware that some State agencies may be applying the 30 percent limit incorrectly. This memorandum clarifies the procedures which must be followed to ensure that the maximum administrative reimbursement for day care home sponsors is calculated correctly.

The 30 percent limit must be calculated independently from the homes times rates/costs/budget comparison. For administrative payments to be no more than 30 percent of the total of administrative and food service payments, they must be less than or equal to 42.9 percent of food service payments. (See Attachment if you would like to see how this percentage is derived.) Therefore, to calculate the 30 percent limitation, a SA must multiply the value of food service payments for a sponsor's homes by .429. The result of this calculation is compared with the homes times administrative rates

calculation, actual costs, and the approved administrative budget. The SMALLEST of these 4 amounts is the sponsor's maximum administrative reimbursement.

Some SAs have calculated the 30 percent limitation by adding the maximum administrative reimbursement as determined by the homes times rates/costs/budget comparison to the value of food service payments, and then multiplying this total by .3. This method is not correct because the administrative payment must be limited to 30 per cent of the actual payment which the sponsor receives, not 30 percent of the maximum potential payment. The following example illustrates how this method yields an inaccurate calculation of the 30 percent limitation:

IF:

Sponsor Food Earnings = \$50,000

Smallest of Homes times Rates/Cost/Budget = \$50,000

30% of (food earnings plus maximum administrative earnings) =

.3 times (50,000+50,000)=\$30,000

HOWEVER:

If the sponsor is paid \$80,000 (\$30,000 administrative and \$50,000 food), \$30,000 is 37.5 per cent of \$80,000, and therefore amount of administrative payments would exceed 30 per cent of the total amount of administrative payments and food service payments.

THE CORRECT ADMINISTRATIVE PAYMENT:

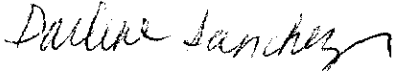
Is .429 times \$50,000 food earnings = \$21,450. The total payment to the sponsor would be \$71,450 (\$21,450 administrative and \$50,000 food); \$21,450 is 30 percent of \$71,450.

If the 30 per cent limitation is calculated based on the maximum potential food and administrative payment total, the ratio of administrative payments to food service payments will be different for each sponsor, depending on the number of homes sponsored, actual administrative costs, approved budget, and the average value of food service payments per home relative to other sponsors. By calculating the 30 percent limit by multiplying food service payments by .429, SAs ensure that all sponsors are treated equitably and that the 30 percent limit serves the intended purpose of providing an effective check on the level of administrative payments to day care home sponsoring organizations.

State Agency Directors

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Please review the procedures for calculating the 30 percent limitation and determining the maximum administrative reimbursement for day care home sponsors to ensure that they are in full compliance with Program regulations. If you should have any questions about this memo, you may contact a member of our staff at 303-844-0359.



DARLENE SANCHEZ  
Acting Program Director  
Child Nutrition Programs

Attachment

## Attachment

### Calculating Maximum Administrative Payments as a Percentage of Food Service Payment

Let A = Maximum Administrative Payments

Let B = Food Service Payments

The maximum allowable amount for A is 30% of (A+B), or  $.3(A+B)$ .

For A to equal 30% of (A+B), A must be equal to 42.9 percent of B. This percentage is calculated as follows:

$.3(A+B) = A$  (The maximum administrative payment is 30 percent of the total of Administrative Payments plus Food Service Payments)

$.3A + .3B = A$  (Same equation as above, but the terms on the left side are multiplied out)

$.3B = .7A$  (Subtract  $.3A$  from both sides of the equation so that the A term is on one side and the B term on the other.)

$\frac{.3B}{.7} = A$  (Divide both sides of the equation by  $.7$  to determine the ratio of A to B. Administrative Payments can be equal to no more than  $\frac{3}{7}$  of Food Service Payments)

$.429B = A$  (Divide  $.3$  by  $.7$  to get the decimal equivalent of the ratio to use in calculating the 30 percent limitation.)

A sponsor's maximum administrative reimbursement for a fiscal year is the SMALLEST of:

- (1) the sum of the number of operating homes times the per home administrative rate for all operating months,
- (2) the sponsor's actual administrative costs,
- (3) the sponsor's approved administrative budget, or
- (4)  $.429$  times the total value of food service payments earned by the sponsor's homes (30% limitation)